

## Message Text

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PAGE 01 QUITO 04361 212315Z

61

ACTION COME-00

INFO OCT-01 ARA-16 ADP-00 EB-11 INT-08 SCEM-02 RSR-01

CIAE-00 INR-10 NSAE-00 RSC-01 TRSE-00 OPIC-12 XMB-07

PA-03 PRS-01 USIA-15 /088 W

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R 212110Z AUG 73

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 8365

INFO AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: ENRG, EC

SUBJECT: MC KEE BID ON PETROLEUM REFINERY

REF: QUITO 4167

1. SUMMARY. PRESENT MCKEE POSITION IS PRECARIOUS BECAUSE OF FAILURE TO SUBMIT LUMP-SUM BID. MCKEE PUBLICATION OF AMOUNT OF ITS OFFER IN LOCAL PRESS AUGUST 14 STIRRED UP RESENTMENT IN CEPE. BUT EMBASSY BELIEVES MCKEE MIGHT AVOID DISQUALIFICATION BY OFFERING TO PROVIDE GUARANTEED MAXIMUM FIGURE, AND REFRAINING FROM ANY FURTHER PRESS PLAY. OFFER OF GUARANTEED MAXIMUM RATHER THAN LUMP-SUM WOULD BE ADVANTAGEOUS TO BOTH MCKEE AND CEPE. FINALLY, WE ASK THAT MCKEE ADVISE THE EMBASSY DIRECTLY OF ITS PLAN OF ACTION AND ANY DEVELOPMENTS. END SUMMARY.

2. WE UNDERSTAND FROM SOURCE IN THE MINISTRY OF NATURAL RESOURCES THAT CEPE BOARD OF DIRECTORS WILL HAVE NO CHOICE BUT TO DISQUALIFY MCKEE BECAUSE OF LATTER'S FAILURE TO SUBMIT A LUMP-SUM BID ON AUGUST 6 ACCORDING TO CONTRACT BASES ESTABLISHED BY CEPE. MOREOVER, MCKEE CERTAINLY DID NOT INGRATiate ITSELF WITH CEPE AS RESULT OF NEWS ITEM PLACED IN EL COMERCIO LAST WEEK.

3. AIRING OF MCKEE POSITION IN LOCAL PRESS STARTED WITH AUGUST 12

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PAGE 02 QUITO 04361 212315Z

EL COMERCIO NEWS ITEM STATING THAT THE OFFERS OF ALL FOUR BIDDERS

WERE OVER \$100 MILLION. ON AUGUST 14, EL COMERCIO PUBLISHED LETTER-TO-EDITOR FROM MCKEE REPRESENTATIVE MARCOS GANDARA POINTING OUT THAT MCKEE BID WAS ONLY \$62 MILLION AND DEFENDING THE REIMBURSABLE COST CONCEPT UNDERLYING MCKEE'S OFFER.

4. CEPE STRUCK BACK WITH NEWS RELEASE PRINTED IN THE FOLLOWING DAY'S EL COMERCIO, COMMENTING THAT MCKEE "HAS PRESENTED NO OFFER FOR CONSTRUCTION ACCORDING TO THE EXPLICIT REQUIREMENTS CONTAINED IN THE BASES APPROVED BY THE (CEPE) DIRECTORATE." AT THE SAME TIME, CEPE CRITICIZED MCKEE FOR PUBLICLY DIVULGING DETAILS OF ITS BID WITHOUT CLEARING WITH CEPE. THIS EXCHANGE BETWEEN MCKEE AND CEPE GENERATED LOCAL PRESS EDITORIALS, WITH EL COMERCIO GENERALLY FAVORING MCKEE AND THE COST-PLUS APPROACH AND EL TIEMPO CRITICIZING MCKEE WITH DARK INSINUATION THAT IN THE PAST THE TRUSTING ECUADOREANS HAD TO PAY DEARLY FOR "SURPRISES" BY COMPANIES WHICH HAD OBTAINED CONTRACTS UNDER

SIMILAR CONDITIONS, AND MCKEE WOULD BE ANOTHER CASE OF THE SAME.

5. MCKEE OFFICIALS IN THE U.S. APPARENTLY HAVE REJECTED THE RECOMMENDATION OF ITS QUITO REPRESENTATIVES THAT THE FIRM SUBMIT A LUMP-SUM OFFER AS QUICKLY AS POSSIBLE, ON THE PLAUSIBLE ARGUMENT THAT MCKEE, AFTER FLOGGING THE ADVANTAGES OF COST-PLUS, COULD NOT REVERSE ITS POLICY WITHOUT SUFFERING LOSS OF CREDIBILITY. MCKEE OFFICIALS REPORTEDLY ARE TAKING POSITION THAT THEY WILL SUBMIT A LUMP-SUM FIGURE IF MINISTRY OR CEPE TAKES THE INITIATIVE AND REQUESTS IT.

6. THE EMBASSY BELIEVES THAT MCKEE WILL BE DISQUALIFIED WITHIN THE NEXT MONTH UNLESS IT ACTS QUICKLY IN AN ATTEMPT TO ESTABLISH THE CREDIBILITY OF ITS POSITION. WE ALSO BELIEVE THAT THE ANSWER IS NOT THE IMMEDIATE SUBMISSION OF A LUMP-SUM BID, NOR IS IT A NEWS MEDIA CAMPAIGN WHICH CAN ONLY EMBARRASS CEPE.

7. BASED ON OUR SOUNDINGS, WE SUGGEST THAT COMMERCE APPROACH MCKEE OFFICIALS IN U.S. AND URGE MCKEE TO PROCEED ALONG THE FOLLOWING LINES:

A) SEND A TELEGRAM TO COLONEL DUENAS, CEPE MANAGER, EMPHASIZING THAT MCKEE BID OF \$62 MILLION WAS AN "HONEST ESTIMATE, BASED ON THE CURRENT COST OF BUILDING THE REFINERY", AND INFORMING CEPE THAT LIMITED OFFICIAL USE

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PAGE 03 QUITO 04361 212315Z

MCKEE WOULD BE PLEASED TO PROVIDE A "GUARANTEED MAXIMUM", REPEAT "GUARANTEED MAXIMUM" FIGURE BY ADDING "A REASONABLE PERCENTAGE" TO ITS EARLIER BID TO REFLECT ANY "MARGINAL INCREASE" IN THE COST OF EQUIPMENT AND MATERIAL OVER THE NEXT 5-6 MONTHS.

B) IN ITS TELEGRAM, MCKEE SHOULD ALSO INDICATE THAT IT WOULD INCREASE ITS GUARANTEE TO ACCORD WITH ITS "GUARANTEED MAXIMUM" OFFER.

C) TACTFUL MENTION SHOULD BE MADE TO THE EFFECT THAT MCKEE HAS NO INTENTION OF PUBLICIZING THIS INITIATIVE TO CEPE. (COMMENT: GANDARA'S LETTER IN EL COMERCIO LAST WEEK REPORTEDLY ONLY SUCCEEDED IN ANGERING CEPE OFFICIALS. WE SEE NO ADVANTAGE IN MCKEE TAKING ITS BATTLE TO THE PUBLIC AT THIS TIME.) NO MENTION SHOULD BE MADE, HOWEVER, OF ANY PREVIOUS USE OF THE PRESS BY MCKEE.

D) COPIES OF MCKEE'S TELEGRAM TO DUENAS SHOULD BE SENT, AS A MINIMUM PRECAUTION, TO MINISTER JARRIN AS WELL AS TO CHIEF OF JOINT MILITARY STAFF, GENERAL JORGE IZURIETA ITURALDE.

8. THE TACTICS RECOMMENDED ABOVE ARE BASED ON THE FOLLOWING FACTIORS:

A) "GUARANTEED MACIMUM": WHEREAS DEADLINE FOR SUBMITTING LUMP-SUM BID HAS PASSED AND CEPE COULD FIND LEGITIMATE REASON FOR TURNING DOWN SUCH A BID BY MCKEE AT THIS LATE DATE, GUARANTEED MAXIMUM, AS DISTINCT FROM LUMP-SUM, PROVIDES MEANS FOR CEPE TO SAVE FACE. OTHER OBVIOUS ADVANTAGE FOR CEPE IS POSSIBLE SAVING ON REFINERY; UNDER LUMP-SUM BASIS GOE WILL HAVE NO CONTROL OVER ACTUAL PURCHASE OF MATERIALS OR PROFITS OF CONSTRUCTION FIRM.

B) "HONEST ESTIMATE": MAJOR TASK FOR MCKEE IS TO CONVINCE CEPE AND ITS BOARD OF DIRECTORS OF MCKEE'S SINCERITY AND HONESTY IN PRESENTING ITS ORIGINAL ESTIMATE. FEELING AMONG SOME CEPE OFFICIALS IS THAT, "IT IS EASY TO SUBMIT A LOW FIGURE WHEN ONE IS NOT HELD TO IT.. WE DO NOT FIND THIS VIEW UNREASONABLE.

C) FINALLY, SIMPLY OFFERING TO PROVIDE CEPE A GUARANTEED MAXIMUM FIGURE AT THIS TIME SHOULD IMPOSE NO HARDSHIP ON MCKEE, AND WILL TEND TO KEEP MCKEE OPPONENTS OFF BALANCE; IT IS ALSO CALCULATED TO BE AN OFFER WHICH CEPE CANNOT REFUSE. CEPE AND THE MINISTRY WOULD LATER BE HARD PRESSED TO EXPLAIN WHY GOVERNMENT DID NOT SERIOUSLY CONSIDER A FIRM OFFER WHICH MIGHT HAVE BEEN \$25-30 MILLION BELOW THAT OF LIMITED OFFICIAL USE

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PAGE 04 QUITO 04361 212315Z

NEAREST COMPETITOR.

9. LASTLY, EMBASSY WOULD APPRECIATE BEING INFORMED OF DEVELOPMENTS IN MCKEE STRATEGY DIRECTLY FROM MCKEE OFFICIALS IN CLEVELAND. LOCAL REPRESENTATIVES APPEAR UNSURE AS TO EXPECT LINE OF CONDUCT, AS EVIDENCED BY RECENT CONVERSATION WITH COMMATT. CHAPLIN

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